

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

DATE: December 2010 **LETTER NO.:** 10-CU-25

TO: Federally Insured Credit Unions

SUBJ: State of the Credit Union Industry

ENCL: Financial Trends in Federally Insured Credit Unions
January 1 – September 30, 2010

Dear Board of Directors:

The overall financial condition of the credit union industry remains sound. The industry's aggregate net worth is up slightly to just under 10 percent of total assets. Over 94 percent of federally insured credit unions meet the statutory definition of "well capitalized" with net worth ratios of 7 percent or higher. The return on average assets improved to 0.45 percent.

However, financial stresses remain. **The attached report focuses on key trends and risks that NCUA will continue to closely monitor and supervise.**

Credit risk continues to place stress on credit union performance. In particular, real estate and business loan delinquencies have increased as economic uncertainties persist. Loan modifications continued to rise, which is a sign of credit unions helping their members as well as elevated risk in loan portfolios. Since modified loans are still at risk for future delinquencies, NCUA will continue to closely supervise credit unions in this area. It is imperative that credit unions maintain prudent risk management practices to control these risks.

Interest rate risk remains a concern for credit unions going forward and will be an area of emphasis during examinations. The credit union industry continues to hold a significant amount of long-term fixed-rate loans, while shares are primarily in short-term accounts. Further, a majority of shares are deposited in rate-sensitive accounts. The growth in lower-rate real estate loan modifications also increases interest rate risk. Proactive structuring of balance sheets, including proper control over loan concentrations and share products, is essential to future success.

Although aggregate delinquency and net loan charge-off ratios have generally decreased since December 2009, credit unions in many parts of the country continue to experience higher loan losses. NCUA is closely monitoring these trends, particularly in areas struggling with high unemployment, declining real estate values, and failing businesses.

The weak economy continues to severely impact many credit union members. As their debts become overwhelming, members who experienced job losses and foreclosures are more likely to file for bankruptcy. The number of members filing for bankruptcy increased by one-third in the third quarter of 2010 and is on pace to exceed the total for 2009. During the first nine months of 2010, the percentage of loans charged off due to bankruptcy increased from 20.8 percent to 23.7 percent.

While some financial ratios are beginning to move in a positive direction, challenges remain for credit unions to overcome the effects of the economic downturn. NCUA examiners are working diligently with affected credit unions to help mitigate risks and maintain stable balance sheets. NCUA will continue to take proactive steps to protect the safety and soundness of the credit union industry.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure